DOCUMENT RESUME

ED 405 140 PS 025 158

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TITLE Education Finance Reform. Voices for Illinois Children Special Report.
INSTITUTION Voices for Illinois Children, Chicago.
SPONS AGENCY Annie E. Casey Foundation, Baltimore, MD.; Ford Foundation, New York, N.Y.
PUB DATE Jun 96
NOTE 9p.; This 'Special Report' was produced as a part of Voices' State Finances Project. Funding also received from the Woods Fund of Chicago, Inc.
PUB TYPE Viewpoints (Opinion/Position Papers, Essays, etc.) (120) -- Reports - General (140)

EDRS PRICE MF01/PC01 Plus Postage.
DESCRIPTORS Budgeting; Educational Equity (Finance); *Educational Finance; *Elementary Secondary Education; *Finance Reform; Financial Needs; Financial Problems; Policy Analysis; Property Taxes; School District Wealth; School Taxes; State Legislation
IDENTIFIERS Alternative Financing; Financing Options; *Illinois; Property Wealth

ABSTRACT

This special report reviews problems in Illinois' education funding system and discusses potential solutions to these problems. The report notes that the fundamental problem with the current education finance system is an over-reliance on local property taxes. Although property taxes are a relatively stable and lucrative revenue source, over-reliance on them has led to inadequate and inequitable school funding with negative consequences for the quality of education. Michigan's solution of using sales taxes for education is not appropriate for Illinois because Illinois already has a high sales tax rate. Recent evidence suggests a strong positive correlation between school spending and academic achievement. Results of a 1996 poll indicate that Illinois voters see education as one of the most important state problems and that 77 percent of voters feel that the state should increase financial support for public schools. Recommendations by the Ikenberry Commission and the House Plan for reform both have shortcomings. The final education plan includes increasing funds above the Governor's budget request, developing a new set of statewide achievement tests, and enabling local school boards to develop dress codes. A long-term solution will involve an increase in the state's responsibility and a decrease in reliance on local property taxes. The Coalition for Education Rights advocates several state actions, including providing the foundation level of funding sufficient to support a high-quality education program for all children and implementing a fair tax system. (KDFB)

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VOICES FOR ILLINOIS CHILDREN

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Special Report

A Periodic Publication of Voices for Illinois Children. June 1996

Education Finance Reform

Education finance reform has been a hot topic for community discussion, newspaper headlines and political speeches over the last few months. Illinoisans, especially those who follow education issues closely, may feel a sense of *deja vu* as debates center on constitutional amendments, property taxes, accountability and fiscal sleight-of-hand. Although cynics validly can claim that a lot of talk in the past has amounted to very little substantive reform, Voices for Illinois Children is encouraged by two points in particular:

- The issue of reforming school finances has reached the top of the state's political agenda, and
- There seems to be growing agreement in the general public that Illinois' school funding system needs to be changed.

Now the task facing parents, advocates for children and others concerned with the long-term competitiveness of Illinois' labor force is to keep the debate alive while continuing to work toward adequacy and equity in school funding, and property tax relief.

In this *Special Report*, we review problems in Illinois' flawed education funding system and ways in which its problems could be addressed.

Problems with the Education Funding System

According to the Governor's Commission on Education Funding, a "foundation level" of $4,225 per student is the minimum amount necessary to ensure a quality education. More than 60% of the state's school districts -- nearly two of every three -- do not have enough funds to meet this adequacy level.

Responsibility for this widespread lack of financial support cannot fall solely to individual districts or the legislature. Illinois' public schools are funded by federal, state and local governments, and changes in spending during the last two decades has altered the composition of school funding dramatically.

Chart 1 illustrates the relatively stable level of federal contributions and the major shift in responsibility from state to local sources from 1973-1994.

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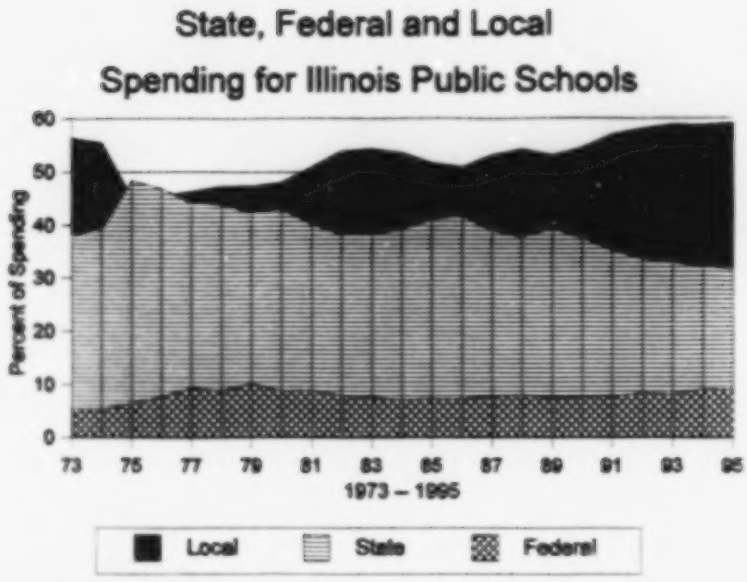
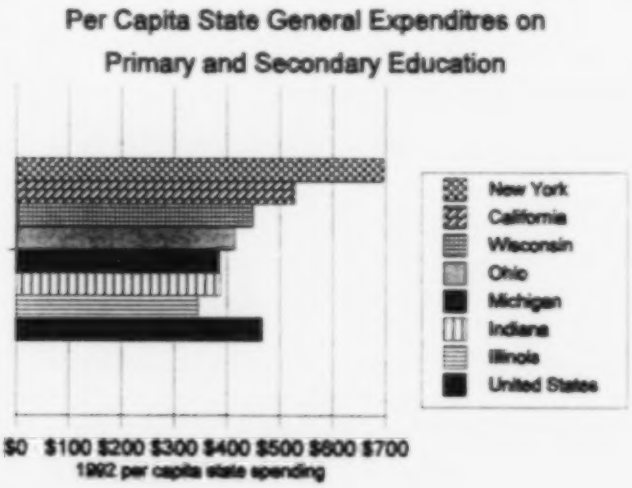
Chart 1



Source: IL State Board of Education

Since 1976, the state's share of funding decreased from 47% to 32% while the local share increased from 46% to 59%. Individual school districts have been forced to raise local property taxes to keep classroom doors open. Because of the reliance on local property wealth to fund schools, Illinois ranks 43 out of 49 states in per-capita state support for primary and secondary education funding.[1]

Chart 2



Source: Advisory Commission on Intergovernmental Relations

As Chart 2 shows, Illinois spent $344 per capita on primary and secondary education, which is the lowest in the Midwest, 3/4 the U.S. average, and 2 times less than New York's $695 per capita.

Illinois' low level of state support forces local school districts to rely more and more on local property taxes to support schools.

The Problem with Property Taxes

Property taxes are not, in and of themselves, unsatisfactory sources of revenue. They are relatively stable and can generate a considerable amount of revenue. However, an over-reliance on property taxes can lead to inadequacy and inequity in funding. When the state created a local property tax for schools, policy makers could not have imagined the differences in property wealth that would develop.

North Shore Elementary School spends $7,668 per student, which is about twice the amount that Antioch spends. The two districts have almost identical property tax rates but because the property values in North Shore are considerably higher than Antioch, North Shore generates more revenue per-pupil. While school districts, like North Shore, can provide access to cutting edge technology and up-to-date books, school districts like Antioch struggle to keep quality teachers and pay bills.

1994-1995 Per-Pupil Expenditure

District	Antioch Elementary	North Shore Elementary
Operating Tax Rate	2.66	2.69
Property Wealth Per-Pupil*	$124,992	$274,968
Per-Pupil Expenditure	$3,866	$7,668

* "Property Wealth" stands for Equalized Assessed Valuation.
Source: IL State Board of Education.

Property tax revenues, which are based upon local tax rates and property values, vary greatly. Some districts have access to property wealth generated by high value entities such as shopping malls and power plants, while others do not.

A case in point from Lake County shows the effects of property wealth on per-pupil student spending.

While the Illinois Constitution notes that the state has "the primary responsibility for the financing of public"[2], Illinois provides a smaller and smaller share of funding each year. To make ends meet, local school districts turn to property tax revenues to fund education. The over-reliance on property taxes results in an inherently unfair education finance system with real consequences for the quality of education.

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Michigan's Education Finance Reform

Frustrated by property taxes that had tripled from 1972 to 1992 and per-pupil expenditures that vary as much as $7,000, Michigan, in 1994, overhauled its education finance system.

Reform did not take an easy road. Thirteen state ballot proposals either to alter school finance or to reduce/abolish property taxes failed between 1972 and 1993. The gridlock over the educational status quo finally broke when the legislature abolished the existing system and presented voters with a radical choice: replace property tax revenue with an increase in the state sales tax (known as "Proposal A") or, allow the automatic increase of the state income tax from 4.6 to 6%.

On March 15, 1994, Michigan voters overwhelmingly passed Proposal A, which reduced the school system's reliance on property taxes from over 60% to approximately 32%. To replace local tax revenue, the state:[3]

- raised the sales tax from 4.0% to 6.0%,
- increased the per-pack tax on cigarettes from 25 cents to 75 cents,
- implemented a 0.75% tax on all real estate transfers,
- created a statewide education property tax,
- decreased the income tax rate from 4.6% to 4.4%, and
- enacted a property tax assessment cap of 5% or inflation (whichever is less).

At the core of Michigan's new funding distribution is an annually adjusted foundation target, which was $5,000 in FY1994-95. The target is adjusted each year for the changes in the number of pupils and the amount of state funds available for education. The actual amount of funding a school receives is based on one of two methods.

- A district which received less than the state target has its new foundation allowance increased via a formula that adjusts for the general increase in the target amount and any adjustments in the minimum per-pupil expenditure by the state.

- A district which received more than the state target of $5,000 in FY1994-95 simply received an increase equal to the amount of change in the basic foundation allowance from the prior year.

Along with finance reform, Michigan also passed a number of school reform measures. The state developed a provision for an unlimited number of charter schools, increased funds for at-risk students, developed a mechanism to gradually increase the minimum number of school hours from 900 hours to 1,080 hours per year, and provided local school districts with greater control over budgetary decisions.

By and large, Michigan's finance policy change has dramatically increased the amount of state funds available to school districts. However, the long-term impact remains to be seen. Michigan turned to a revenue source (sales tax) that will not grow with the economy and is regressive. Illinois, which already has a high sales tax rate, would be unwise to exactly follow Michigan's reform.

Does Money Matter?

For years there has been a raging debate in education policy concerning the relationship between spending and achievement. Recent research has shed new light on this thorny issue.

One researcher, Erik Hanushek of the University of Rochester, is often cited for his claim that, "There is no strong or systematic relationship between school expenditures and student performance."[4]

However, more recent research says that the money does matter. Some researchers have come to believe that Hanushek's analysis was misguided. In a re-analysis of the same data used by Hanushek, University of Chicago researchers found a strong *positive* relationship between resources and achievement. After reviewing the identical data, using a stronger statistical analysis tool, the University of Chicago researchers found that, "Relying on the data most often used to deny that resources are related to achievement, we find that money does matter after all."[5]

R.F Ferguson proposes that money matters when spent on certain types of activities. Funds spent on teachers and instructional equipment greatly impacts test scores. His research concludes, "... that when targeted and managed wisely, increased funding can improve the quality of public education."[6]

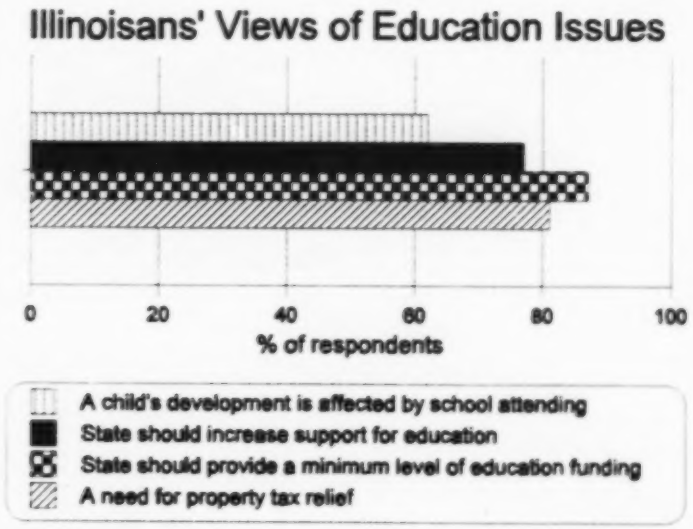
While future research will continue to add to our understanding of this issue, it is clear that increased funding for education can improve student outcomes.

What Illinoisans Say About School Funding

Illinoisans across the state have begun to discuss the importance of addressing school finance. While the issues are complex, voters do grasp the key problem and potential solutions.

A 1996 poll conducted by Leo J. Shapiro and Associates asked voters about child development, schools and the role of state in funding public education.

Chart 4



Source: Leo J. Shapiro and Associates

Respondents mentioned education as one of the most important problems facing the state and more than 60% strongly agreed that a child's successful development is affected by the school attended. Seventy-seven percent of respondents further felt that the state should increase the amount of financial

support for public schools. Plans for the state to provide a minimum level of education funding for all children garnered 87% support while 81% of those surveyed agreed with the need for property tax relief.

While problems facing the reform of school finance are formidable, Illinoisans expressed support increases in state responsibility and reductions in property taxes. Illinoisans clearly understand the importance of investments in quality education for children and for the future of the state.

What Policy Makers Are Doing About Education Funding

Over the last several months there has been a considerable amount of discussion about changing the education finance system. The following summarizes the debate this spring.

The Ikenberry Commission: In 1995, Governor Edgar appointed a Commission to develop and recommend a plan for the long-term reform of education finance. In March 1996, the Commission recommended eight principles for reform including ensuring quality, establishing an adequate foundation level, providing property tax relief, reducing inequality, promoting efficiency and innovation, and changing the constitution to protect these reforms.

The results of the Commission received little public debate and the *Chicago Tribune* labeled the proposal a "tax bombshell." The legislature quickly moved to ensure that the recommendations would not be acted on.

The House Plan: Although the Commission's plan was "dead," the legislature continued to discuss education reform. In the end of March, the House Education Committee forwarded a proposal which allocated new funds to schools through a $250 per-pupil flat grant, created block grants for existing categorical programs, instituted mandatory summer school for children who fall behind and other measures. The plan was criticized for providing the same support to schools in both low and high spending districts, for combining programs which meet different types of needs, and draining resources from other programs for children and families to fund education. *Crain's Chicago Business* called the plan "...the modern-day equivalent of passing out turkeys on election day."

House and Senate Negotiations
While some Senate members did not support parts of the House proposal, the Senate continued to grapple with how to begin reform this year. During the late spring, the House and Senate negotiated over reform details. Some items in the final education bill include increasing funds above the Governor's budget request, developing a new set of statewide achievement tests, encouraging schools to use summer school as a way to improve achievement, and enabling local school boards to develop a dress code. The final plan also included the FY1997 Illinois State Board of Education appropriations (summarized below). As we went to press, the measure awaited the Governor's signature.

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Select Illinois State Board of Education (ISBE) Appropriations FY1994 – FY1997 (thousands)

Department and Select Program Areas	FY1995	FY1996	FY1997 Governor's request*	FY1997 Appropriation	%chg FY96 – FY97	Inflation Adjusted %chg.
ISBE TOTAL	$4,778,000.0	$5,038,000.0	$5,290,493.0	$5,337,716.9	5.95%	3.05%
General State Aid	$2,285,334.6	$2,326,245.1	$2,392,797.5	$2,377,571.5	2.21%	-0.69%
School Safety and Educational Improvement Block Grant**	--	--	--	$52,500.0	NA	NA
Special Education***	$365,160.5	$412,941.8	$470,658.2	$480,848.1	16.44%	13.54%
Pre-Kindergarten****	$92,719.4	$101,991.3	$112,190.4	$112,190.4	10.00%	7.10%
Early Intervention	$1,500.0	$3,000.0	$6,000.0	$6,000.0	100.00%	97.10%
Technology For Success****	$5,000.0	$15,000.0	$30,000.0	$30,000.0	100.00%	97.10%
Project Success	$1,000.0	$2,000.0	$3,000.0	$3,000.0	50.00%	47.10%
Parental Training	$3,911.1	$3,911.1	$3,911.1	$3,911.1	0.00%	-2.90%
Alternative Learning	--	--	$7,000.0	$5,000.0	NA	NA

* The Governor does not make specific requests for most of the ISBE line-items. These FY97 request figures are based on either the Governor's statements or ISBE's budget request. ** This is the new block grant which will be distributed on a per-pupil basis. *** The Special Education appropriation figures represent eight line items: "Children with Low-Incidence Disabilities", "Extraordinary Services", "Orphanage Tuition", "Personnel Reimbursement", "Philip Rock Center", "Private Tuition", "Regular Education Initiative", and "Summer School". **** Pre-Kindergarten and Technology for Success appropriation figures do not include administration costs.

While the House and Senate were able to come to agreement and pass a school funding bill for FY1997, the much needed work of significantly changing the basic structure of school funding in Illinois remains undone.

Changes in Education Funding: Principles of a Quality Education Finance System

Illinois' education finance system is inadequate and inequitable. Illinoisans want policy makers to fix these problems. Voices for Illinois Children believes that the system can be fixed and that all children must have access to the kind of education necessary for success. The fundamental problem with the current system is an over-reliance on local property taxes. Any long-term, successful solution will need to involve an increase in the state's responsibility and a decrease in reliance on local property taxes.

The Coalition for Education Rights -- a diverse

group of educators and citizen based advocacy organizations -- believes that:

- State funding must provide equal educational opportunities for every child.
- Schools must be accountable for student achievement and fiscal responsibility.

State actions should include:

- Providing the foundation level of funding sufficient to support a high-quality educational program for every child.
- Recognizing individual needs for learning so that all children have an equal chance to meet state and local standards of achievement, regardless of their physical characteristics, family background or native language.
- Assisting local communities in providing additional programs so that enhanced educational opportunities are not limited to children who happen to live in school districts with high property values.
- Funding improvements in technology and facilities, the infrastructure needed for learning.
- Implementing a fair tax system which reduces the reliance on local property taxes to fund education and uses more statewide resources.

Reforming the education finance system will require diligence on the part of lawmakers. While major restructuring of the state fiscal system did not take place during the 1996 legislative session, there is hope that it will be addressed in 1997. Educators, advocates and other Illinoisans need to work with our state policy makers to craft a long-term solution to the education funding crisis in Illinois.

This *Special Report* was co-authored by Ami Nagle and Robert Kim. For more information about this topic and other state fiscal issues please call Voices for Illinois Children at (312) 456-0600.

Voices is a non-profit, non-partisan, citizen-based advocacy group addressing problems faced by Illinois children and their families. Through research, public education and coalition-building, Voices generates support from civic, business and community leaders for cost-effective and practical proposals to improve the lives of Illinois children.

This *Special Report* is produced as a part of Voices' State Finances Project. The State Finances Project is supported through grants from the Ford Foundation, the Annie E. Casey Foundation and the Woods Fund of Chicago, Inc.

Endnotes

1. Advisory Commission on Intergovernmental Relations. *Significant Features of Fiscal Federalism*, Vol.2. 1994. Rank does not include Hawaii because schools are entirely funded through state funds. Data from 1992.
2. Illinois Constitution. Article XX.
3. Information in this section was provided by the Michigan Department of Education.
4. Erik Hanushek, *Educational Researcher*, 1989
5. Larry Hedges, Richard Laine and Rob Greenwald, *Educational Researcher*, 1994
6. R. F Ferguson, *Harvard Journal on Legislation*, 1991

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